

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,  
ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED  
STATES; THE PROVISIONS OF OFFICE OF MANAGEMENT AND  
BUDGET (OMB) CIRCULAR A-133; AND THE *RULES OF  
THE AUDITOR GENERAL* OF THE STATE OF FLORIDA**

**CITY OF LEESBURG, FLORIDA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

<b>Federal Grantor/Pass-through Grantor/Program Title</b>	<b>Grant Number</b>	<b>CFDA Number</b>	<b>Program or Award Amount</b>	<b>Expenses</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct Programs:				
Section 8 Rental Voucher	FL115VO	14.857	\$ 899,331	\$ 899,331
Indirect Programs:				
Passed Through Florida Department of Community Affairs:				
Community Development Block Grant	03-DB-1A-06-45-02-C05	14.228	750,000	750,000
<b>Total Department of Housing and Urban Development</b>			<u>1,649,331</u>	<u>1,649,331</u>
<b>U.S. Department of Justice</b>				
Direct Programs:				
Community-Oriented Policing Services (COPS FAST)	95-CF-WX-0121	16.710	373,163	16,608
Bulletproof Vest Partnership	00-CM-WX-0063	16.607	11,792	3,569
Indirect Programs:				
Passed Through Florida Department of Law Enforcement:				
DARE/SRO	03-CJ-5A-06-45-02-093	16.579	34,125	34,125
Local Law Enforcement Block Grant	00-LB-BX-1315	16.592		0
Local Law Enforcement Block Grant	01-LB-BX-3831	16.592	67,183	38,635
Local Law Enforcement Block Grant	02-LB-BX-0891	16.592	65,859	34,443
<b>Total Department of Justice</b>			<u>552,122</u>	<u>127,380</u>
<b>U.S. Department of Transportation Federal Aviation Administration</b>				
Passed Through Florida Department of Transportation:				
Airport Improvement Program - Taxiway Extension	3-12-0042-011-2002	20.106	1,328,247	901,198
<b>Total Expenditures of Federal Awards</b>			<u>\$ 3,529,700</u>	<u>\$ 2,677,909</u>

**Note to the Schedule of Expenditures of Federal Awards**

**Basis of Presentation**

The accompanying schedule of federal awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**CITY OF LEESBURG, FLORIDA**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

<u>State Grantor/Program Title</u>	<u>Grant Number</u>	<u>CSFA Number</u>	<u>Program or Award Amount</u>	<u>Expenses</u>
<b>Florida Department of Environmental Protection</b>				
Florida Recreation Development Assistance Programs:				
Carver Heights Park	F02260	37.017	\$ 134,050	\$ 134,050
Lakeshore Drive	S0034	37.017	62,099	62,099
<b>Total Florida Department of Environmental Protection</b>			<u>196,149</u>	<u>196,149</u>
<b>Florida Department of Transportation</b>				
Aviation Development Grants:				
Land Acquisition	404917-1-44-01	55.004	0	0
Environmental Assessment Runway	407607-1-94-01	55.004	120,000	50,000
Taxilane Construction	407609-1-94-01	55.004	274,570	274,570
T-Hangar Construction	247506-1-84-01	55.004	60,000	60,000
Air Traffic Control Tower Construction	247556-1-84-01	55.004	400,000	62,438
Fuel Farm	413012-1-94-01	55.004	480,000	244,809
Hangar Construction	407691-1-94-01	55.004	425,000	425,000
Runway Rehabilitation	413392-1-94-01	55.004	47,736	44,076
Design Taxiway Construction	407621-1-94-01	55.004	26,055	26,055
Aircraft Rescue and Fire Fighting Facility	410091-1-94-01	55.004	1,077,600	91,135
Airport Entrance Signage	4148301-1-91-01	55.004	60,000	12,000
Airport Line Operation Building	415039-1-94-01	55.004	220,000	0
Airport Ramp Area	415039-1-94-01	55.004	300,000	0
Airport Security Enhancement	4015141-1-84-01	55.004	337,410	0
<b>Total Florida Department of Transportation</b>			<u>3,828,371</u>	<u>1,290,083</u>
<b>Total Expenditures of State Financial Assistance</b>			<u>\$ 4,024,520</u>	<u>\$ 1,486,232</u>

**Note to the Schedule of Expenditures of State Financial Assistance**

**Basis of Presentation**

The accompanying schedule of expenditures of state financial assistance is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 10.550, *Rules of the Auditor General, Local Governmental Entity Audits*.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Honorable City Commission  
City of Leesburg  
Leesburg, Florida

We have audited the basic financial statements of the City of Leesburg, Florida (the City), as of and for the year ended September 30, 2003, and have issued our report thereon dated December 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the City Commission in a separate letter dated December 31, 2003.

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Honorable City Commission  
City of Leesburg  
Leesburg, Florida

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*  
(Concluded)**

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

December 31, 2003  
Ocala, Florida

*Purvis, Gray and Company*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO  
EACH MAJOR FEDERAL AWARDS PROGRAM AND STATE  
FINANCIAL ASSISTANCE PROJECT**

Honorable City Commission  
City of Leesburg  
Leesburg, Florida

**Compliance**

We have audited the compliance of the City of Leesburg, Florida (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. The City's major federal programs and state financial assistance projects are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program and state financial assistance projects occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2003.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

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Honorable City Commission  
City of Leesburg  
Leesburg, Florida

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO  
EACH MAJOR FEDERAL AWARDS PROGRAM AND STATE  
FINANCIAL ASSISTANCE PROJECT  
(Concluded)**

**Internal Control Over Compliance (Concluded)**

In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program or state financial assistance project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

**Schedule of Expenditures of Federal Awards and State Financial Assistance**

We have audited the basic financial statements of the City. As of and for the year ended September 30, 2003, and have issued our report dated December 31, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state financial Assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and Chapter 10.550 *Rules of the Auditor General* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

December 31, 2003  
Ocala, Florida

*Purvis, Day and Company*

## **CITY OF LEESBURG, FLORIDA**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS**

#### **1. Summary of Audit Results**

##### **I. Type of Audit Report Issued on Basic Financial Statements**

Unqualified Opinion.

##### **II. Reportable Conditions and/or Material Weaknesses in Internal Control**

Audit disclosed no instances of reportable conditions in internal control or reportable conditions which were material weaknesses in internal control.

##### **III. Noncompliance Material to Auditee Basic Financial Statements**

Audit disclosed no material instances of noncompliance.

##### **IV. Reportable Conditions and/or Material Weaknesses in Internal Control Over the Major Programs**

Audit disclosed no instances of reportable conditions in internal control over the major programs or reportable conditions which were material weaknesses in internal control over the major programs.

##### **V. Type of Audit Report Issued on Compliance with Requirements Applicable to the Major Programs**

Unqualified Opinion.

##### **VI. Audit Findings Relative to Major Federal Award Programs and State Financial Assistance Projects**

The audit disclosed no findings required to be reported.

##### **VII. Programs/Projects Tested as Major Programs/Projects**

###### **Federal Program**

U.S. Department of Transportation, Federal Aviation Administration:  
Airport Improvement Program (20.106)

###### **State Project**

Florida Department of Transportation:  
Aviation Development Grants (55.004)



**CITY OF LEESBURG, FLORIDA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL  
AWARDS PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS  
(Concluded)**

1. **Summary of Audit Results** (Concluded)

**VIII. Dollar Threshold Used to Distinguish Between Type A and Type B Programs**

\$300,000

**IX. Auditee Qualification as Low-risk Auditee**

The auditee qualifies as a low-risk auditee per criteria set forth in Section .530 of OMB Circular A-133.

2. **Findings Related to the Basic Financial Statements Required to be Reported Under GAGAS**

The audit disclosed no findings which are required to be reported under GAGAS.

3. **Findings and Questioned Costs for Federal Awards and State Financial Assistance Projects**

The audit disclosed no findings which are required to be reported.

**CITY OF LEESBURG, FLORIDA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

1. **Status of Prior Audit Findings**

There were no audit findings reported in our prior year's audit schedule of findings and questioned costs.

**CITY OF LEESBURG, FLORIDA**  
**CORRECTIVE ACTION PLAN IN**  
**ACCORDANCE WITH OMB CIRCULAR A-133**

1. **Corrective Action Planned for Current Year Audit Findings**

There are no current year audit findings included in the current year's schedule of findings and questioned costs.

**INDEPENDENT AUDITORS' REPORT ON EXAMINATION  
OF MANAGEMENT'S ASSERTION ABOUT COMPLIANCE  
WITH SPECIFIED REQUIREMENTS**

Honorable City Commission  
City of Leesburg  
Leesburg, Florida

We have examined management's assertion included in its representation letter dated December 31, 2003, that the City of Leesburg, Florida (the City) complied with the allowable cost requirements of the grants and aids appropriations identified in the schedule of expenditures of federal awards and state financial assistance for the year ended September 30, 2003. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the City's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, management's assertion that the City complied with the allowable cost requirements of the grants and aids appropriations identified in the schedule of expenditures of federal awards and state financial assistance during the fiscal year ended September 30, 2003, is fairly stated, in all material respects.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

December 31, 2003  
Ocala, Florida



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## MANAGEMENT LETTER

Honorable City Commission  
City of Leesburg  
Leesburg, Florida

We have audited the financial statements of the City of Leesburg, Florida, (the City) as of and for the fiscal year ended September 30, 2003, and have issued our report thereon dated December 31, 2003.

We have issued our independent auditors' report on compliance and on internal control dated December 31, 2003. Disclosures in that report, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the state of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* [Section 10.554(1)(g)1.(a)] require that we comment as to whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules and regulations, and contract provisions reported in the preceding annual financial audit report have been corrected. There were no such matters disclosed in the preceding audit report.

The *Rules of the Auditor General* [Section 10.554(1)(g)1.(b)] require that we comment as to whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding annual financial audit report have been addressed by the City.

The *Rules of the Auditor General* [Section 10.554(1)(g)2.] require that we determine whether the City complied with Section 218.415, Florida Statutes, regarding investment of public funds. Our audit disclosed no matters requiring comment as outlined in Section 218.415, Florida Statutes.

The *Rules of the Auditor General* [Sections 10.554(1)(g)3. and 4.(a), (b), and (c)] require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal control: recommendations to improve financial management, accounting procedures, and internal controls; violations of laws, rules, and regulations which may or may not materially affect the

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Honorable City Commission  
City of Leesburg  
Leesburg, Florida

**MANAGEMENT LETTER**  
**(Concluded)**

financial statements; illegal or improper expenditures that may or may not materially affect the financial statements; improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, and defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. (Please see management letter comments dated December 31, 2003.)

The *Rules of the Auditor General* [Section 10.554(1)(g)5.] also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. Please see note 1 of the accompanying basic financial statements.

As required by the *Rules of the Auditor General* [Section 10.554(1)(g)6.(a)], the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the City, is not in a state of financial emergency as a consequence of the conditions described by Section 218.503(1), Florida Statutes.

As required by the *Rules of the Auditor General* [Section 10.554(1)(g)6.(b)], we determined that the financial report for the City of Leesburg, Florida, for the fiscal year ended September 30, 2003, filed with the Department of Banking and Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2003.

The *Rules of the Auditor General* [Section 10.554(1)(g)6.(c)] require that we disclose that we have applied financial condition assessment procedures pursuant to Rule 10.556(8).

This management letter is intended solely for the information and use of the City Commission, management, the State of Florida, and other governmental agencies, and is not intended to be and should not be used by anyone other than these specified parties.

December 31, 2003  
Ocala, Florida

*Furvis, Gray and Company*

**MANAGEMENT LETTER COMMENTS**

Honorable City Commission  
City of Leesburg  
Leesburg, Florida

During the course of our audit, the following item came to our attention. These items involve primarily operational matters which, if improved, will result in more efficient and effective operations:

**Current Year Recommendations**

**Pension Benefit Payment Controls**

The City's General Employee, Police Officers' and Firemen's pension plans currently pay retirement benefits to several retirees. These benefits are paid to the retirees by an external paying agent that provides the City with a benefit register on a monthly basis. We believe that internal control over this area would be strengthened if the City would develop a procedure to at least annually, confirm that all retirees (and their surviving spouses in the case of joint annuity option) receiving benefits are still living and eligible to receive benefits. This would detect the fraudulent cashing of deceased retiree checks by surviving family members not entitled to those benefits.

**Payroll Overtime**

The personnel policy of the City in effect during 2003 provides for overtime pay for employees when hours exceed forty per week, even if sick or vacation time is taken during the pay period. Although permissible, it is our understanding that wage and hour law does not require overtime be paid at time and a half during a pay period when vacation and sick time is taken. The effect of this policy is to add costly overtime pay to the City even when employee attendance at work does not exceed forty hours per week because of vacation or sick time taken. We recommend that the City review the cost benefit of this policy for possible discontinue of this practice.

**Utility Billing Determinates**

The City's utility revenues for 2003 total nearly 60 million dollars and come from six different service functions; electric, gas, water, wastewater, sanitation and storm water services and also include various state and local taxes and fees. Each utility has several rate classes, different rate structures and a multitude of billing determinates that effect the ultimate bill that the customer receives such as; impervious surface square footage, meter multipliers (KWH and KW), tax exemptions, gas factors, sprinkler pipe size, dumpster size and pickup frequency, power factors, yard light quantity and size, load management credits and other related items. Because of the importance of these items in computing the customers' bill and the fact that they change over time, we recommend the City continue its program of verifying all key billing determinates by physical inspection of customer premises on a rotating basis. This will add assurance that all customers are billed in accordance with the City's intent.

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Honorable City Commission  
City of Leesburg  
Leesburg, Florida

**MANAGEMENT LETTER COMMENTS**  
*(Continued)*

**Pole Rental Counts**

The City charges a pole rental fee to telephone and cable companies that attach their lines to the City's utility poles. The rate charged is determined by contract and the quantity billed is based upon prior year quantities updated for current year attachment requests. It is our understanding that it has been several years since the City has taken a field inventory of all pole rental attachments to verify the quantities being billed. Through further conversations with the Electric Utility Director, we understand the City has begun to process to physically inventory and digitally map the location of all utility poles in fiscal year 2004, and will update that inventory every five years. The inventory will include detailed descriptions of all attachments to the poles. We recommend that the City dedicate the necessary resources to complete the field inventory of all pole attachments and update its billing records to ensure that all potential pole rental revenue is being billed.

**Interim Financial Reporting**

The City's basic general ledger software does not facilitate the preparation of monthly financial statements for all major funds for management and council review. Also, because the City has a significant concentration of enterprise funds with significant balance sheets, it is important that interim financial reporting include financial position as well as results of operations. Accordingly, we recommend that the City review its report writing software with the goal of building comparative balance sheets and income statements compared to budget and prior year for all major funds. We believe that such reports will help City staff and elected officials better understand and manage the City's financial affairs.

**Cash Collection Controls**

The building and zoning department currently collects checks and cash without the benefit of a cash register or follow-up procedures to account for all pre-numbered receipts issued. This leaves the City vulnerable to employee theft or error of potentially significant amounts of checks and cash. Accordingly, we recommend that the department put in cash registers so that all transactions will be captured at the point of sale, which should reduce the chance of loss to the City to an acceptable level.

**Risk Management**

The City self-insures medical care and workers compensation, but has historically not had a good system to track and communicate claims paid by department so that safety training and other remedial efforts can be focused where needed the most. Accordingly, we recommend that claims by department be tracked, monitored and communicated, with appropriate follow-up as necessary.

Also the City's safety program might benefit from safety incentives to motivate workers to become more safety conscious and therefore minimize accidents in the work place.

Our inquiry of the recently hired risk management employee indicates that work is currently in progress to implement both of these points.



Honorable City Commission  
City of Leesburg  
Leesburg, Florida

**MANAGEMENT LETTER COMMENTS**  
*(Continued)*

**Check Fraud Protection**

The American Bankers Association reports that check fraud is growing at a rate of 25% per year. The two most common forms of check fraud are counterfeiting and alterations. Today's technology makes both of these methods relatively easy for anyone with a criminal intent. Local governments in the south Florida area have been reporting numerous instances of counterfeiting over the past several years.

Perhaps the most effective way to combat check counterfeiting is through the use of positive pay service offered by most banks. The system works by the City electronically submitting to its bank a listing of authorized checks issued, to be used as a control list for the bank to compare to all checks presented for payment from the City's account. Any counterfeit checks presented for payment would not be on the City's list and not paid by the bank. We recommend that the City review this topic internally and with its local bank to determine if it would be beneficial.

**Airport Development**

The City has over the past several years been in the process of developing its local airport into a regional airport designed to support and enhance the general aviation needs of the Metro Orlando area and stimulate the local economy. As a part of this process, in February 2003, the City acquired real estate costing approximately 1.3 million dollars, associated with an airport improvement project that was intended to be funded by an amendment to an existing State Airport Grant. The real estate purchase was unfortunately completed prior to the State approving an amendment to the grant for the acquisition and therefore, unallowable under the terms of the grant. The City has pursued a settlement agreement with the State for reimbursement of the purchase, which appears promising, however as of December 30, 2003, the State has not formally approved the settlement agreement or reimbursed the City for the purchase. Accordingly, we recommend that the City continue its ongoing efforts with the State to obtain reimbursement and that the City review its controls over expenditures intended to be reimbursed by grants to ensure that they are made in accordance with the terms of the grant and therefore reimbursable.

**Utility Funds**

During the year ended September 30, 2003, the City's four utility funds experienced net losses. For the Electric and Water funds, this was primarily due to special transfers to the City's Capital Projects Fund to finance special one-time projects, however for the Gas and Wastewater funds, this condition appears to be a matter of revenues not keeping up with costs. In order to maintain the long-term health of the Utility funds and ensure compliance with City Ordinance No. 2000-35, which does not allow Operating Transfer Out of the Utility funds if they result in a net loss to the fund, we recommend that the City review the rates and costs of all Utility funds for possible change.

These management letter comments are intended solely for the information and use of the City Commission, management, the State of Florida, and other governmental agencies, and are not intended to be and should not be used by anyone other than these specified parties.

Honorable City Commission  
City of Leesburg  
Leesburg, Florida

**MANAGEMENT LETTER COMMENTS**  
*(Concluded)*

We would like to take this opportunity to express our appreciation for the courtesies which have been extended to our staff. If you have any questions or comments about the contents of this letter, or the information accompanying this letter, please do not hesitate to contact us.

December 31, 2003  
Ocala, Florida

*Purvis, Gray and Company*

**City Responses To The  
Preliminary Audit Comments and Recommendations  
September 30, 2003  
City of Leesburg**

**Pension Benefit Payment Controls**

Response: External paying agents were contacted and queried about relevant services they provide, which proved to be inadequate for our needs. Alternative control procedures are being analyzed.

**Payroll Overtime**

Response: By resolution adopted by the Board of Commissioners on Feb 23, 2004, Personnel Rule 211 was amended to state that vacation and sick time taken shall not be considered hours worked for the calculation of overtime.

**Utility Billing Determinates**

Response: The gas and electric department physically inspects and audits, on a rotating basis, commercial customer premises for electrical service, special lighting and gas service. City meter readers are trained to inspect water, electric and gas meters for faults and defects and do so at each monthly reading. The Solid Waste Division conducts monthly site checks of dumpster locations and verifies accounts accordingly. The Customer Service staff is trained to review customer rates and account setup each time an account is accessed.

**Pole Rental Counts**

Response: By resolution adopted by the Board of Commissioners on Feb 23, 2004, a consultant was hired to perform on-site inventory of all electric transmission poles in the system determining GPS coordinates and all attachments. The inventory will be included in the GIS system and the database will include owner's name for each pole attachment. An accurate count of attachment owners will be available at any time

**Interim Financial Reporting**

Response: Staff recognizes the need for improved monthly financial reporting. Finance is analyzing the use of Cognos report writer to produce improved monthly balance sheets.

**Cash Collection Controls**

Response: In March 2004, cash registers and receipt printers will be installed at several remote city facilities in conjunction with the implementation of the new program to receive fees by the use of credit cards. Planning and Zoning is one of the remote facilities that will receive a cash register and receipt printer.

Honorable City Commission  
City of Leesburg  
Leesburg, Florida

**RESPONSES TO THE  
MANAGEMENT LETTER COMMENTS**  
*(Continued)*

**Risk Management**

The Safety Committee is researching potential safety incentive programs for implementation prior to October 2004.

**Check Fraud Protection**

The city has received information from its primary bank and is analyzing the feasibility of a positive/control pay service.

**Airport Development**

The real estate purchase closing transaction took place after the grant had been approved but prior to approval of the amendment. The City recognized the grant approval and proceeded with the closing not realizing that the action would be in violation of the grant agreement.

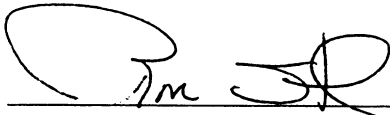
The City arduously pursued the settlement agreement with the State and the \$1.3 million settlement was finally received in March 2004.

The City will continue to make every effort to ensure that expenditures intended to be reimbursed by grants are made in accordance with the terms of the grants.

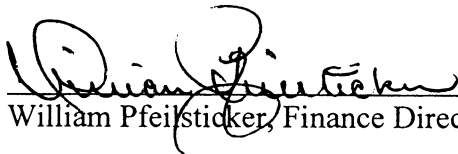
**Utility Funds**

By resolution adopted by the Board of Commissioners on November 10, 2003, FMPA sub-contractor, R. W. Beck, Inc., was hired to conduct rate studies for electric and gas rates. The study will be completed in March 2004. The third increment of rate increases for water and wastewater rates will be implemented October 1, 2004. Cost to Rate ratios will be analyzed in conjunction with that rate increase.

Respectfully,



Ron Stock, City Manager



William Pfeilsticker, Finance Director